

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 14534
ORDER NO. R-13355-A-npt

APPLICATION OF DEVON ENERGY PRODUCTION COMPANY, L.P. FOR
APPROVAL OF A NON-STANDARD GAS SPACING AND PRORATION UNIT,
UNORTHODOX WELL LOCATION AND COMPULSORY POOLING, CHAVES
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This Order is being issued *nunc pro tunc* to correct a clerical error in Order No. R-13355, which is hereby replaced in its entirety.

This case came on for hearing at 8:15 a.m. on September 2, 2010, at Santa Fe, New Mexico, before Examiner Terry Warnell. This case was consolidated with Cases No. 14534, 14536, 14537 and 14528 for purposes of hearing. However, because these cases involve separate units, a separate order will be entered in each case.

NOW, effective the 1st day of February, 2011, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Devon Energy Production Company, L.P. ("Applicant" or "Devon"), seeks approval of a non-standard, 320-acre gas spacing and proration unit and project area (the "project area") in the Mississippia0 formation [West White-Ranch Mississippian Gas Pool (87330)], consisting of the S/2 NE/4 and N/2 SE/4 (Units G, H, I and J) of Section 1, Township 12 South, Range 28 East, NMPM, and the S/2 NW/4 and N/2 SW/4 (Units E, F, K and L) of Section 6, Township 12 South, Range 29 East, NMPM, in Chaves County, New Mexico.

(3) Devon further seeks an order pooling all uncommitted interests from the surface to the base of the Siluro-Devonian formation in the above-described area, as follows:

(a) the proposed non-standard unit for the Mississippian formation;

(b) the S/2 NE/4 of Section 1, to form a non-standard 80-acre, more or less, oil spacing and proration unit in all formations or pools spaced on 80 acres within this vertical extent, including but not limited to the West White Ranch-Devonian Pool (64280); and

(c) the SW/4 NE/4 of Section 1 to form a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent.

(4) The above-described spacing and proration units ("the Units") are to be dedicated to Applicant's Goodnight 1 Fee Well No. 1 (API No. 30-005-64132), ("the well") to be drilled vertically at an unorthodox surface location 2585 feet from the North line and 1980 feet from the East line (Unit G) of Section 1 to test the Siluro-Devonian formation, and then drilled horizontally for gas in the Mississippian formation with a terminus 1980 feet from the South line and 1980 feet from the West line of Section 6.

(5) Spacing in the West White Ranch-Mississippian Gas Pool is governed by statewide Rule 15.10.B, which provides for 320-acre units, "comprising any two contiguous quarter sections of a single section." The proposed Mississippian unit is non-standard because it consists of quarter-quarter sections located in different sections.

(6) Spacing in the West White Ranch-Devonian Pool is governed by the Special Rules and Regulations for the West White Ranch-Devonian Pool, as adopted by Order No. R-1757 issued on December 16, 1959, which provide for 80-acre units with the first well on any unit to be located within 150 feet of the center of a quarter/quarter section. The location of the proposed well is unorthodox for the West White Ranch-Devonian Pool, and for any 40-acre oil pool governed by statewide Rule 15.9.

(7) Applicant also seeks approval of an unorthodox oil well location in the SW/4 NE/4 of Section 1.

(8) Applicant appeared at the hearing through counsel and presented geologic and land testimony to the effect that:

(a) this area is suitable for development by horizontal drilling;

(b) all quarter-quarter sections to be included in the proposed non-standard unit and project area are expected to be productive in the Mississippian, so that formation of the unit as requested will not impair correlative rights; and

(c) working interest ownership is identical between the proposed oil unit and the unit to the south toward which the proposed non-standard well location encroaches.

(9) Chisos, LTD appeared at the hearing through counsel to testify they had reached a voluntary agreement with Devon and asked to be dismissed from the case. No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(10) Approval of the proposed project area as a non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the project area, thereby preventing waste, and will not impair correlative rights.

(11) Two or more separately owned tracts are embraced within the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Units that are separately owned.

(12) Applicant is an interest owner of an oil and gas working interest within the Units. Applicant has the right to drill the well to a common source of supply within the S/2 NE/4 and N/2 SE/4 of Section 1 and the S/2 NW/4 and N/2 SW/4 of Section 6 within the Units.

(13) Exhibit 7 to Devon's application lists only Samedan Royalty Corporation as the owner being pooled in this case. There are no unlocatable owners.

(14) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Units the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Units.

(15) Devon Energy Production Company, L.P. should be designated the operator of the subject well and of the Units.

(16) Any pooled working interest owner who does not pay its share of well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(17) Reasonable charges for supervision (combined fixed rates) should be fixed at \$5,500 per month while drilling and \$550 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) A non-standard, 320-acre gas spacing and proration unit and project area is hereby established in the West White Ranch-Mississippian Gas Pool, consisting of the S/2 NE/4 and N/2 SE/4 (Units G, H, I and J) of Section 1, Township 12 South, Range 28 East, NMPM, and the S/2 NW/4 and N/2 SW/4 (Units E, F, K and L) of Section 6, Township 12 South, Range 29 East, NMPM, in Chaves County, New Mexico.

(2) Pursuant to the application of Devon Energy Production Company, L.P., all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Siluro-Devonian underlying the S/2 NE/4 and N/2 SE/4 of Section 1, Township 12 South, Range 28 East, NMPM, and the S/2 NW/4 and N/2 SW/4 of Section 6, Township 12 South, Range 29 East, NMPM, Chaves County, New Mexico, are hereby pooled in the following manner:

(a) the S/2 NE/4 and N/2 SE/4 of Section 1, Township 12 South, Range 28 East, NMPM, and the S/2 NW/4 and N/2 SW/4 of Section 6, Township 12 South, Range 29 East to form a standard 320-acre, more or less, gas spacing unit for all formations or pools spaced on 320 acres within this vertical extent;

(b) the S/2 NE/4 of Section 1, to form a non-standard 80-acre, more or less, oil spacing and proration unit in all formations or pools spaced on 80 acres within this vertical extent, including but not limited to the West White Ranch-Devonian Pool (64280); and

(c) the SW/4 NE/4 of Section 1 to form a standard 40-acre oil spacing and proration unit for all formations or pools developed on 40-acre spacing within this vertical extent.

(3) The above-described spacing and proration units ("the Unit") is to be dedicated to Applicant's Goodnight 1 Fee Well No. 1 (API No. 30-005-64132), ("the well") to be drilled vertically at a standard gas, but non-standard oil, location 2585 feet from the North line and 1980 feet from the East line (Unit G) of Section 1 to test the Siluro-Devonian formation, and then drilled horizontally for gas in the Mississippian formation approximately 2585 feet from the North line and 1680 feet from the East line of Section 1 with a terminus 1980 feet from the South line and 1980 feet from the West line of Section 6.

(4) The above-described unorthodox well location for oil production from the West White Ranch-Devonian Pool or any pool spaced on 40 acres is hereby approved.

(5) Devon Energy Production Company, L.P. (OGRID 6137) is hereby designated the operator of the well and of the Units.

(6) The operator of the Unit shall commence drilling the proposed well on or before February 1, 2012, and shall thereafter continue drilling the well with due diligence to test depths into the top portion of the Mississippian formation.

(7) In the event the operator does not commence drilling the proposed well on or before February 1, 2012, Ordering Paragraph (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(8) Upon final plugging and abandonment of the Goodnight 1 Fee Well No. 1 (API No. 30-005-64132) and any other wells drilled on these Units pursuant to Division Rule Part 13, Sections 9 through 11, the pooled units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units.) Within thirty days following the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Units an itemized schedule of actual costs of drilling, completing and equipping the well ("well costs"). All well costs allocated to pooled working interest owners shall be apportioned among them according to their interests in the 320-acre unit except for costs of completing in a formation not spaced on 320 acres.

(10) Within 30 days from the date the schedule of actual well costs is furnished, any pooled working interest owner shall have the right to pay its share of actual well costs to the operator in lieu of paying its share of well costs out of production as hereinafter provided, and any such owner who pays its share of actual well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of actual well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(11) If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of actual costs in advance as provided above shall receive from the operator the amount, if any, that the actual well costs it has paid exceed its share of reasonable well costs.

(13) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$5,500 per month while drilling and \$550 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

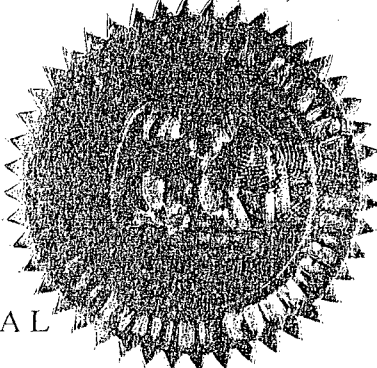
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(18) The operator of the well and Units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Daniel Sanchez", with a long, sweeping horizontal line extending to the right.

Daniel Sanchez
Acting Director